

THE GUARANTEE COMPANY
of NORTH AMERICA

TO THE SHAREHOLDERS

The year 1974 will record the most adverse experience to date in the history of the general insurance industry. Your Company has shared some of this experience. The problems engendered by inflation, the energy crisis and universal distortion of values have tested the skills of the men and women responsible for your Company's operation.

Underwriting, claims and investments were all subjected to unforeseeable stresses: underwriting, to hidden shoals of vandalism and outdated values; claims, to rapidly escalating costs and court awards; investments, to grossly depressed values.

The general insurance industry in Canada reached a new low in the year 1973, but underwriting results for 1974 would appear to have exceeded this almost twofold. No governmental insurance plan will provide a correction. Only adequate rates of premiums for the risks, insurance to value, efficient operation and public honesty can guarantee reasonable protection to the insured.

The federal Department of Insurance dictates that, for tests of the adequacy of assets, market values rather than amortized costs (as allowed by most provincial departments) be used to value our bonds, yet other federal departments, through deficit financing, other inflationary actions and money supply control, are basically responsible for the market value of these securities. This paradoxical situation has been to a large extent responsible for the Company's \$3,901,957 "Unrealized loss on marketable securities". This in turn controls our ability to provide insurance. When policies such as adequacy of assets were enacted, it was impossible to foresee and provide for such staggering contingencies as those experienced during the past year. Some corrective measures by the federal government could alleviate problems such as these.

You will note that income before income taxes for the year of \$458,778 is much below that of last year. The year's plan, subjected to continually rising expenses, was further disrupted by unprecedented and unusual claims.

The results summarized in the financial report are now history. The confidence with which your directors face the new year is evidenced by the opportunity being given to increase the Company's capital through a rights issue. This same enthusiasm is reflected by the staff in initiating corrective measures to meet changing conditions. Today's premiums must satisfy claims in an uncertain future. This demands wise judgment.

The objectives chosen by your directors, the measures adopted by the staff to implement them, and the continued support of our agents, together provide the means by which your Company expects to attain the desired result for the ensuing year.

G.A. Savage
President

THE GUARANTEE COMPANY
of NORTH AMERICA

DIRECTORS

G. A. SAVAGE
President
PIERRE CÔTÉ
President—Laiterie Laval Limitée
FRANK COWAN
President—Frank Cowan Company Limited
ROBERT H. COWAN
Account Executive—Frank Cowan Company Limited
BRUNO DESJARDINS, Q.C.
Partner—Simard & Desjardins
DANIEL O'C. DOHENY, Q.C.
Partner—Doheny, Mackenzie, Grivakes, Gervais &
Le Moyne
J. H. KENNEDY
Vice-President & General Manager—Frank Cowan Company
Limited
W. J. MILHAUSEN,
Partner—Marani, Rounthwaite and Dick
G. W. MILLAR
Chairman of the Board—Beclawat (Canada) Limited
LYLE E. WELLS,
Executive Vice-President—Frank Cowan Company Limited

OFFICERS

GEORGE A. SAVAGE President & Chief Executive Officer
FRANK COWAN Vice-President
BRUNO DESJARDINS, Q.C. Vice-President and Secretary
DOUGLAS M. CHADWICK Treasurer

OPERATIONS MANAGEMENT

ARAM SEMERJIAN
Ass't. Vice-President,
Ass't. General Manager
DOUGLAS R. SMITH
Ass't. Secretary
Investment Manager
J. ANDRÉ LAPIERRE
Claims Manager
MILDRED L. JONES
Ass't. Vice-President,
Fidelity Bond Manager
BERNARD SOUCHEREAU
Underwriting Manager
Casualty & Property
JOHN LEDDEN
Controller

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THE GUARANTEE COMPANY
OF NORTH AMERICA

1974

ANNUAL REPORT

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FIDELITY AND SURETY BONDS
PROPERTY AND AUTOMOBILE INSURANCE

THE COMPANY THAT INTRODUCED FIDELITY INSURANCE TO NORTH AMERICA

INCORPORATED STATUTES OF CANADA 1851 • FEDERALLY LICENSED 1872

BALANCE SHEET AS AT DECEMBER 31, 1974

(with comparative figures for the preceding year)

ASSETS

	1974	1973
Cash and cash equivalent	\$ 467,710	\$ 367,345
Accounts receivable		
Accrued investment income	228,028	216,917
Agents	2,403,325	2,531,500
Other insurers	1,566,159	356,970
Other	805,133	1,001,843
Income tax prepaid and recoverable (Note 2)	182,389	—
Prepaid expenses	31,676	1,005
Investments (Note 3)	5,216,710	4,108,235
Bonds and debentures — at market values	6,509,822	7,676,316
Shares — at market values	8,220,645	8,087,452
Mortgages	171,432	112,485
Real estate	218,985	221,518
Fixed assets	15,120,884	16,097,771
Office furniture and equipment — at cost	266,301	232,792
Accumulated depreciation	164,904	139,773
Leasehold improvements at amortized cost	101,397	93,019
Deferred premium acquisition costs (Note 4)	18,728	20,874
LIABILITIES	120,125	113,893
Accounts payable	1,321,672	1,935,446
Other	\$22,247,092	\$22,622,690

SHAREHOLDERS' EQUITY

Capital Stock		
Authorized 200,000 share at \$5		
Issued and fully paid 133,720 shares	668,600	668,600
Retained earnings (Note 6)	3,643,174	5,182,517
	4,311,774	5,851,117
	\$22,247,092	\$22,622,690

SIGNED ON BEHALF OF THE BOARD:

Director
Director

Emile Desjardins
Emile Desjardins

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1974

(with comparative figures for the preceding year)

	1974	1973
GROSS PREMIUMS WRITTEN	\$18,629,293	\$16,829,014
NET PREMIUMS WRITTEN	\$15,503,099	\$15,258,451
REVENUE		
Premiums earned	\$15,200,007	\$12,825,696
Investment income		
Bond and debentures	653,666	597,931
Dividends	514,441	466,255
Gain on investments sold	4,275	69,231
Mortgage income	11,775	11,508
Rentals (Note 3d)	42,911	3,575
Other	8,770	4,751
TOTAL REVENUE	1,235,838	1,153,251
EXPENSES		
Claims incurred	11,427,383	8,264,540
Commissions	3,185,499	3,066,624
Premium taxes	312,239	317,869
Other underwriting and administrative	982,449	1,039,234
Investment	69,497	41,533
INCOME before income taxes	15,977,067	12,729,800
Income taxes recovery (expense) (Note 2)	458,778	1,249,147
NET INCOME	89,220	(114,015)
	\$ 547,998	\$ 1,135,132

STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1974

(with comparative figures for the preceding year)

	1974	1973
UNAPPROPRIATED RETAINED EARNINGS		
January 1st before unrealized loss on securities	\$6,463,155	\$5,397,293
Net income	547,998	1,135,132
Transfer to guarantee bond reserve	7,011,153	6,532,425
Unrealized loss on marketable securities	79,414	69,270
APPROPRIATED RETAINED EARNINGS (Note 6)		
January 1st	6,931,739	6,463,155
Transferred from unappropriated retained earnings to guarantee bond reserve	3,901,957	1,814,616
December 31st	3,029,782	4,648,539
TOTAL RETAINED EARNINGS	533,978	464,708
	79,414	69,270
	613,392	533,978
	\$3,643,174	\$5,182,517

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1974

1. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the basis of following the principal requirements of the Department of Insurance of Canada for reporting in annual statements filed with them. These requirements differ in some respects to generally accepted accounting principles used by other types of business enterprises as mentioned in Notes 2 a) b) and 3 a) b).

2. INCOME TAXES

a) Income tax charge against operations is determined using the taxes payable method.
b) Accumulated deferred income taxes resulting from the claiming for tax purposes of deferred premium acquisition costs is approximately \$660,836 (1973 — \$987,000). Accumulated deferred tax charge that can be applied in future years against tax on capital gains is approximately \$1,014,000 (1973 — \$463,000).

3. INVESTMENTS

The values stated for investments are as follows:

- a) Bonds and debentures shown at market value have an amortized value of \$7,978,023 and a cost value of \$7,856,280 (1973 — \$8,635,936 and \$8,571,875). Realized gains and losses have been taken into income.
- b) Shares having a cost of \$10,776,143 (1973 — \$9,006,509) are valued at market.
- c) Mortgages are accounted for on the basis of outstanding balances.
- d) Real estate at cost less accumulated depreciation is included under this caption, since its main purpose is one of investment. Depreciation on building is calculated on the declining balance basis at 5% per annum. Rental income includes an amount of \$13,656 (1973 — \$1,138) which represents an occupancy charge in respect of space used by the company.

4. DEFERRED PREMIUM ACQUISITION COSTS

These represent agents' commissions, premium taxes and certain other underwriting expenses which relate directly to acquisition of premiums. These costs, to the extent that they are considered to be recoverable, are deferred and amortized over the term of the related premiums.

5. REINSURERS' DEPOSIT

The company held in trust reinsurers' assets with a market value of \$3,179,488 for the protection of policy holders and relating to a reinsurance treaty entered into during the year.

6. APPROPRIATED RETAINED EARNINGS

Appropriated retained earnings at the end of the current and preceding year consisted of a special reserve in connection with fidelity and surety guarantee bonds outstanding.

AUDITORS' REPORT

To the Shareholders of
The Guarantee Company of North America

We have examined the balance sheet of The Guarantee Company of North America as at December 31, 1974 and the statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations for the year then ended, in accordance with accounting practices prescribed or permitted by the Department of Insurance of Canada as referred to in Note 1 to the financial statements, applied on a basis consistent with that of the preceding year.

February 17, 1975

THORNE RIDDELL & CO.
Chartered Accountants